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## El Salvador

### SUGAR ANNUAL

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**Report Highlights:**

Sugarcane planted area in 2008/09 increased 5,000 hectares compared to 2007/08, reaching 64,000 hectares. The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In Marketing Year (MY) 2008 most sugar exports were destined for Canada, Chile and to the U.S. re-export market. An additional tariff rate quota (TRQ) allocation under the Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) is providing a boost to the Salvadoran sugar industry in 2008/09. The sector continues to get tariff protection by the Government of El Salvador (GOES). The Ministry of Agriculture (MAG) continues efforts to shift traditional agricultural production into more profitable non-traditional export crops. The GOES and the sugar industry have agreed on a 10 percent mixing ratio for ethanol and gasoline. However, the law for production of alternative fuels, including ethanol, has not been finalized by the current administration and will have to wait until after the new GOES administration takes office on June 1, 2009.

**Executive Summary:**

Higher yielding sugarcane varieties, diversification of the industry into produce energy and alcohol/ethanol, investment in milling equipment to improve sugar yields, additional access to the U.S. market due to CAFTA-DR and stable international prices all augur well for El Salvador's

sugar industry over the next 3 to 5 years. A National Sugar Law for commercialization, production and distribution of sugar is an important component to the reengineering process that the industry has undergone. In addition, assisted by higher prices and additional access to the U.S. market, the sector seems to be recovering financially after facing debt complications due to natural disasters such as tropical storm Stan and lack of government policies to assist sugarcane growers. Ultimately, however, the success of the industry will rely on compliance with the Sugar Law by all parties involved, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and ethanol production.

Sugarcane production for the 2008/09 harvest is estimated at 4.51 million metric tons (MT). Production for 2007/08 has been increased to 4.64 million MT due to new data provided by CONSAA.

Sugar production for 2008/09 is estimated at 563,000 MT. New data provided by CONSAA show exports increasing by 12,000 MT compared to 2007/08. Sugar production for 2009/10 is expected to decrease slightly due to higher input costs, especially fertilizers, which will affect farm level sugarcane productivity. Also, weather conditions will continue to play a major role in future production. Weather patterns have become erratic due to global warming and the possibility of the natural phenomenon El Niño occurring in 2009/10 poses a threat to sugarcane production.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is \$ 0.31 per pound plus a 13 percent value-added-tax. Lower fertilizer and other input costs could play a major role in future sugar production. El Salvador is already capitalizing on a CAFTA-DR 6.6 million duty free ethanol quota that will grow annually until it reaches 25 million gallons in 2020.

El Salvador together with the rest of Central America is currently negotiating a trade association agreement with the EU that could provide access of up to 60,000 MT duty free to this region. Also the region is negotiating a free trade agreement with Canada that could benefit the sugar industry.

### **Commodities:**

Sugar Cane for Centrifugal  
Sugar, Centrifugal

### **Production:**

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador revealed that the 2008/09 sugarcane harvest is expected to reach 4.51 million MT. Sugar production is estimated to reach 563,000 MT in 2008/09. Overall, the local sugar industry has been working hard to control sugarcane burning during harvest, to create new sugarcane varieties that are more resistant to pests and diseases and increase investments in the sugar milling process. Thus, sugar recovery yields which are estimated at 122 kilograms per MT in the 2008/09 season are expected to continue a positive trend

for the 2009/10 harvest. Sugar production is expected to remain at similar levels in 2009/10 reaching approximately 560,000 MT.

Area planted remains stable at 64,000 hectares (has.) during 2008/09. CONSAA is expecting area planted in 2008/09 to remain at 64,000 has. mainly due the delay in the ethanol production law. If the country approves this law, there is ample idle land in the country that can be devoted to increased sugarcane production. The GOES continues programs to encourage Salvadoran farmers to shift production away from plantation agriculture into value-added non-traditional crops such as tropical fruits.

Grower prices continue to be set according to the sugar content of the cane. According to the Sugar Law, producers are to receive 54.5 percent of total sugar sales, with the rest appropriated by sugar mills. Sugar mills distribute this sales income among sugar producers. Privatization of all mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, some mills continue to undergo financial restructuring and in some cases, are being monitored by financial institutions that want their loans to be honored.

**Consumption:** Increased consumption by the candy and juice industry has provided stability to internal consumption numbers. Domestic consumption reached 243,000 MT in 2008/09. Higher exports of these products, mainly due to CAFTA-DR, could contribute to increased consumption in the medium term. However, in 2009/10 consumption numbers will ultimately depend on how the international crisis affects the Salvadoran economy.

**Trade:**

Exports for 2008/09 are expected to reach 300,000 MT, a 9 percent decrease compared to the previous Post estimate. The export forecast for 2009/10 is 310,000 MT.

The GOES continues to impose a 40 percent import tariff on all sugar. The bound rate on sugar is 70 percent ad-valorem. The GOES considers sugar politically sensitive because it offers large rural employment and for that reason, the GOES provides tariff protection. CAFTA-DR has spurred regional tariff harmonization to avoid triangulations and market disruptions. However, the Central American region still has not agreed on a harmonized import tariff for sugar.

Canada and the U.S. re-export market are major destinations for Salvadoran sugar exports. In 2008, 78,455 MT were exported to Canada and 128,765 MT to the U.S. re-export market. Also some new markets include Chile and Portugal. Export destinations for 2009 are expected to be similar to 2008. El Salvador's Tariff-Rate-Quota for 2008 was 26,453 MT and for 2009 it is 25,880 MT.

El Salvador's CAFTA-DR quota sugar exports were 24,960 MT in 2008 and are estimated at 28,000 MT for 2009.

CAFTA-DR has also increased industrial sugar consumption in El Salvador because sugar-containing products such as candy and juices have immediate duty-free access to the U.S. market.

<b>Export Trade Matrix El Salvador Centrifugal Sugar</b>			
<b>Time Period</b>	<b>MY</b>	<b>Units:</b>	<b>MT</b>
<b>Exports for:</b>	<b>2008</b>		<b>2009</b>
U.S.	51,413	U.S.	53,880
Others		Others	
USA re-export	128,765	USA re-export	133,000
Canada	78,455	Canada	81,000
Chile	25,832	Chile	26,000
Portugal	3,300	Portugal	4,000
Total for Others	236,352		244,000
Others not Listed	700		2,000
Grand Total	288,465		299,880

Source: CONSAA and USDA/FAS.

#### **Stocks:**

Ending stock levels in 2008/09 are estimated at 70,000 MT. Contraband sugar coming from neighboring Guatemala is under control and is no longer causing a disruption to the local market. The Sugar Law states that all sugar sold locally must carry a safety seal provided by CONSAA. Stock levels are expected to increase by approximately 10,000 MT in 2009/10.

#### **Policy:**

The GOES continues to require that all sugar sold in the local market be mixed with vitamin A to reduce blindness in the local population. Both producers and millers share this cost. The GOES has not designed a specific production support or assistance program for the sugar sector, but it does provide tariff protection. Sugarcane growers continue to benefit from a program that the GOES has provided to the agricultural sector. This program is called FINSAGRO and offers loans at a 6 percent interest rate to assist farmers to pay back arrears and have access to fresh working capital. Continued government assistance to the ailing coffee sector has increased pressure by other agricultural sectors, including sugar, to expand assistance programs.

Under the Sugar Law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors that includes members from the government, sugar producers and sugar mills.

The GOES and the sugar industry have agreed on a 10 percent mix ratio for ethanol and gasoline. The GOES started revising a law for production of alternative fuels, including ethanol. A decision on this new law is now expected to be passed on to the new GOES administration that takes office on June 1, 2009. CAFTA-DR provides El Salvador with a 6.6 million duty-free ethanol quota (produced from imported feedstock) that will grow annually

until it reaches 25 million gallons in 2020. U.S., Brazilian and local investors have established a \$10.0 million ethanol dehydration plant with a 60 million gallon annual capacity. La Cabaña sugar mill is the only mill that has ethanol production capability at this time. The selection of El Salvador for a joint U.S.-Brazil effort to expand ethanol production has stirred interest by other mills and new investors. The GOES is working on a project financed by the Inter-American Development Bank (IDB) to design a national ethanol production plan.

The following are some of the areas where the sugar industry continues working to improve sugar profitability:

- Production of only the amount of sugar that can be sold at profitable prices;
- Maintenance or improvement of milling yields;
- Diversification of mill incomes by focusing on alcohol/ethanol production and energy generation;
- Continuation of controls over the use of mixed sugar cane varieties in the fields in order to have better sugar recovery yields and higher sugar quality;
- Exchange of research and technology development information with other sugar producing countries;
- Introduction of new varieties that are pest and disease resistant.

#### Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Salvador	EI	2008 2007/2008			2009 2008/2009			2010 2009/2010					
		Market Year Begin: Nov 2004			Market Year Begin: Nov 2008			Market Year Begin: Nov 2009					
		Annual Data		New Post	Annual Data		New Post	Annual Data		Jan			
		Displayed			Displayed			Displayed					
					Data			Data			Data		
Area Planted		60	60	59	0		64			64			
Area Harvested		58	58	57	0		62			62			
Production		4,600	4,600	4,642	0		4,518			4,625			
Total Supply		4,600	4,600	4,642	0		4,518			4,625			
Utilization for Sugar		4,600	4,600	4,642	0		4,518			4,625			
Utilizatr for Alcohol		0	0	0	0		0			0			
Total Utilization		4,600	4,600	4,642	0		4,518			4,625			

Units of Measure for Area are in 1,000 Hectares.

Units of Measure for Production, Supply & Utilization are in 1,000 Metric Tons.

Sugar, Centrifugal Salvador	EI	2008 2007/2008			2009 2008/2009			2010 2009/2010		
		Market Year Begin: Nov 2007			Market Year Begin: Nov 2008			Market Year Begin: Nov 2009		
		Annual Data		New Post	Annual Data		New Post	Annual Data		Jan
		Displayed			Displayed			Displayed		
		Data			Data			Data		
Beginning Stocks		15	7	15	92		50		70	
Beet Sugar Production		0	0	0	0		0		0	
Cane Sugar Production		595	530	561	555		563		560	
Total Sugar Production		595	530	561	555		563		560	
Raw Imports		0	0	0	0		0		0	
Refined Imp.(Raw Val)		2	0	0	0		0		0	
Total Imports		2	0	0	0		0		0	
Total Supply		612	537	576	647		613		630	
Raw Exports		280	302	288	330		300		310	
Refined Exp.(Raw Val)		0	0	0	0		0		0	

Total Exports	280	302	288	330	300	310
Human Dom. Consumption	240	228	238	240	243	240
Other Disappearance	0	0	0	0	0	0
Total Use	240	228	238	240	243	240
Ending Stocks	92	7	50	77	70	80
Total Distribution	612	537	576	647	613	630

Units of Measure for Stocks, Production, Imports, Exports & Consumption are in 1,000 Metric Tons.

#### **Author Defined:**

#### **Price Policy:**

The wholesale price for white sugar is \$ 24.25 per cwt plus a 13 percent value-added-tax. At the retail level white sugar is sold at \$0.68 per Kg.

The GOES supervises sugar prices through the Ministry of Economy at the wholesale level. However, little effort is made to control prices at the retail level. The Sugar Association publishes monthly retail prices to counter indiscriminate retail price hikes that deeply affect the consumer.